

## Message Text

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73

ACTION EUR-25

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FM USMISSION OECD PARIS

TO SECSTATE WASH DC 2841

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF THE NETHERLANDS

REF: OECD DOCUMENT EDR(74)15

1. SUMMARY: EDRC ANNUAL REVIEW OF THE NETHERLANDS IS SCHEDULED FOR JUNE 4. DOCUMENTS SENT INTERNATIONAL AIRMAIL TO EMBASSY THE HAGUE MAY 25 AND BY AIRPOUCH TO KINNELLY (EUR/RPE) MAY 27. END SUMMARY.

2. OUTLOOK FOR 1974. SECRETARIAT SEES MARKED WEAKENING OF GROWTH IN 1974 WITH GDP RISING AT 2-1/2 PERCENT. MAIN WEAKNESS EXPECTED IN PRIVATE CONSUMPTION WHERE OFFICIAL FORECAST OF 2-1/2 PERCENT INCREASE IN 1974 MAY BE TOO HIGH. MOREOVER, TOTAL FIXED INVESTMENT IS NOT EXPECTED TO INCREASE IN 1974 AND MAY ACTUALLY DECLINE. WITH GROWTH WELL BELOW CAPACITY, UNEMPLOYMENT COULD RISE TO NEAR 4 PERCENT BY END OF YEAR.

3. PRICES EXPECTED TO INCREASE CONSIDERABLY DURING  
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REMAINDER OF 1974. DEMAND MANAGEMENT POLICIES ALREADY

RESTRICTIVE, AND MAIN BURDEN OF ANTI-INFLATION EFFORT WILL FALL ON PRICE AND WAGE CONTROLS. SECRETARIAT FEARS THAT WEAKNESS IN REAL DISPOSABLE INCOMES IN 1973 COULD LEAD TO PRESSURE FOR HIGHER WAGE INCREASES THAN PERMITTED UNDER PRESENT CONTROLS. SECRETARIAT DOUBTS EFFICACY OF STRICT ADMINISTRATIVE CONTROLS OVER TIME, AND SUGGESTS IT MAY BE DESIRABLE TO CONSIDER VOLUNTARY ARRANGEMENTS ALONG LINES OF EARLIER TRIPARTITE AGREEMENTS.

4. DEMAND MANAGEMENT POLICIES: SECRETARIAT NOTES THAT DUTCH AUTHORITIES HAVE ALREADY MOVED TO EASE DEMAND MANAGEMENT POLICIES IN MARCH BY MEANS OF TAX CUTS, INCREASED GOVERNMENT EXPENDITURE, AND RELAXATION OF MONETARY POLICY. HOWEVER, SECRETARIAT SUGGESTS THAT POLICIES MAY STILL BE TOO RESTRICTIVE, AND WITH CONTINUED SLACK IN ECONOMY, FURTHER STIMULUS TO DEMAND MAY BE DESIRABLE IF UNEMPLOYMENT IS NOT TO RISE SUBSTANTIALLY. SUCH POLICIES ARE NOT EXPECTED TO ADD TO INFLATION IN VIEW OF POSITIVE EFFECTS ON UNIT WAGE COSTS OF INCREASED ECONOMIC ACTIVITY. SECRETARIAT SUGGESTS STIMULUS SHOULD BE TO PRIVATE CONSUMPTION IN FORM OF CUTS IN PERSONAL AND INDIRECT TAXES, AND SPECIFICALLY SUGGESTS THAT REDUCTION IN VAT MIGHT CONTRIBUTE TO CONTROL OF INFLATION.

5. BALANCE OF PAYMENTS: SECRETARIAT EXPECTS THAT CURRENT ACCOUNT WILL REMAIN IN SUBSTANTIAL SURPLUS DESPITE THE EFFECTS OF HIGHER OIL AND OTHER IMPORT PRICES. SLACK DOMESTIC DEMAND WILL INSURE AMPLE PHYSICAL CAPACITY TO MEET EXPORT DEMAND, AND FURTHER SHIFT OF RESOURCES TO EXPORT SECTOR CAN BE EXPECTED THIS YEAR. THIS MAY LEAD TO STRONGER GROWTH OF EXPORT VOLUME THAN EXPECTED IN OFFICIAL FORECASTS. SECRETARIAT NOTES THAT FURTHER EASING OF DEMAND MANAGEMENT POLICIES WOULD ALSO SEEM DESIRABLE ON EXTERNAL GROUNDS.

6. MISSION WOULD APPRECIATE COMMENTS FROM EMBASSY THE HAGUE ON SECRETARIAT'S CONCLUSIONS AND WOULD WEL-  
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COME EMBASSY PARTICIPATION AT ANNUAL REVIEW. UNLESS OTHERWISE ADVISED, WE SHALL FOLLOW GENERAL LINE OF SECRETARIAT THINKING.  
TURNER

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## Message Attributes

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